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ENGLISH FOR THE FINANCIAL SECTOR

Courses for third year students in Finance and Accounting

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INTRODUCTION

English for the financial sector is reading, speaking, and writing courses for undergraduate students in finance and accounting who need to understand and express the key concepts of finance and accounting and even other related areas of business and economics.

These courses aim to:

* present you with the language and concepts found in books, newspapers, magazine articles, and websites on finance and accounting.

* develop your comprehension of finance and accounting texts.

* provide you with opportunities to express finance and accounting concepts by reformulating them in your own words while summarizing and discussing ideas.

UNIT 5 Accounting assumptions and principles

A- Assumptions

When writing accounts and financial statements, accountants have to follow a number of assumptions, principles and conventions. An assumption is something that is generally accepted as being true. The following are the main assumptions used by accountants:

1- The separate entity or business entity assumption is that a business is an accounting unit separate from its owners, creditors and managers, and their assets. These people can all change, but the business continues as before.

2- The time-period assumption states that the economic life of the business can be divided into (artificial) time periods such as the financial year, or a quarter of it.

3- The continuity or going concern assumption says that a business will continue into the future, so the current market value of its assets is not important.

4- The unit-of-measure assumption is that all financial transactions are in a single monetary unit or currency. Companies with subsidiaries — that is, other companies that they own — in different countries have to convert their results into one currency in consolidated financial statements for the whole group of companies.

B- Principles

The following are the most important accounting principles (as well as the **consistent** principle and the **historical** cost principle.

1- The **full-disclosure** principle states that financial reporting must include all significant information: anything that makes a difference to the users of financial statements.

2- The principle of **materiality**, however, says that very small and unimportant amounts do not need to be shown

3- The principle of **conservatism** is that where different accounting methods are possible, you choose the one that is least likely to overstate or over-estimate assets or income.

4- The **objectivity** principle says that accounts should be based on facts and not on personal opinions or feelings. Accounts, therefore, should be verifiable: it should be possible for internal and external auditors to show that they are true. This isn't always possible, however: depreciation or amortization, and

provisions for bad debts, for example are necessarily **subjective** = based on opinions.

1- The **revenue recognition** principle is that revenue is recognized in the accounting period in which it is earned. This means the revenue is recorded when a service is provided or goods delivered, not when they are paid for.
2- The **matching** principle, which is related to revenue recognition, states that each cost or expense related to revenue earned must be recorded in the same account period as the revenue it helped to earn.

Exercise:

Match the accounting assumptions and principles (1-6) to the activities they prevent (a-f). Look at A and B opposite to help you.

1 conservatism principle
2 matching principle
3 separate entity assumption
4 revenue recognition principle
5 time-period assumption
6 unit-of-measure assumption

a showing a profit divided into US dollars, euros, Swiss francs, etc.
b publishing financial statements for a 15-month period, because this will show better profits
c waiting until customers pay before recording revenue
d waiting until customers pay before recording expenses
e listing the owners' personal assets in a company's financial statements
f valuing assets and estimating future revenue at the highest possible figures